

**FURTHER EDUCATION
COMMISSIONER ASSESSMENT
SUMMARY**

North Warwickshire and
Hinckley College

MAY 2015

Assessment

Background

North Warwickshire and Hinckley College is a medium-sized general further education college which serves the three boroughs of Nuneaton and Bedworth, North Warwickshire and Hinckley and Bosworth. The main campuses are in Nuneaton and Hinckley but there are another five smaller sites in local community venues. The college provides courses at all levels from pre-entry to higher education.

In February 2013 North Warwickshire and Hinckley College and South Leicestershire College entered into a federation with the primary aim to make efficiency savings for both colleges

North Warwickshire and Hinckley College (NWHC) was issued with a Notice of Concern in April 2015 following a judgement of inadequate financial health based on its 13/14 outturn. The College has incurred an adjusted operating deficit in successive years which has severely depleted its cash reserves.

In the light of these concerns, the Minister for Skills decided that the FE Commissioner should assess the position of the college in line with the government's intervention policy set out in '*Rigour and Responsiveness in Skills*'.

The FE Commissioner's report is intended to advise the Minister and the Chief Executive of the Funding Agencies on

- a) The capacity and capability of North Warwickshire and Hinckley College's leadership and governance to deliver financial recovery within an agreed timeframe
- b) Any action that should be taken by the Minister and/or the Chief Executive of the funding agencies to ensure the delivery of financial recovery and quality improvement (considering the suite of interventions set out in '*Rigour and Responsiveness in Skills*') and
- c) How progress should be monitored and reviewed, taking into account the Agency's regular monitoring arrangements.

Assessment and Methodology

The FE Commissioner, supported by two FE Advisers carried out an assessment during the period 11th May - 15th May 2015. They received in advance extensive briefing information from the SFA and the EFA. A wide range of college documentation was reviewed and they interviewed Board members, managers, staff, students, and representatives of the trade unions. They also toured the college.

The Role, Composition and Operation of the Board

North Warwickshire and Hinckley College has a clear mission, vision and set of values which concentrates on the needs of its local area.

However, the college has endured significant financial deficits for four years, which have not been addressed in either exploring new ways of increasing income or in reducing costs. The Board has thus failed in its duty to 'ensure the efficient and effective use of resources, the solvency of the institution and the safeguarding of assets'. It has been weak in both monitoring and challenge and undemanding with regard to action plans to put matters right. Major changes are required to its composition to improve its financial knowledge and improve its further education experience.

For the group as a whole (which includes South Leicestershire College and an Academy Trust) governance is bureaucratic and ineffective, involving more than 50 meetings a year overall for which senior staff must prepare. Simplification of the existing arrangements is an urgent necessity.

Clerking arrangements, however, in both institutions are good.

The Senior Leadership Team

The current senior leadership team, which operates across the two colleges and the trust, are well qualified and competent but too few in numbers to run a group of this size and complexity. Until recently, with the appointment of the new Chief Operating Officer, however, the team has lacked financial awareness. As a result, while quality issues have been addressed, the college's financial situation has received insufficient attention.

The Principal is involved in a number of activities at a national and regional level and will need to rebalance the demands on her time to ensure that she has the capacity to focus on the implementation of the college's financial recovery plan. The team would also benefit from the addition of an additional senior member of staff responsible for curriculum development, planning and efficiency

Quality of Provision

The college was last inspected by Ofsted in March 2012 (under the previous Common Inspection Framework) with overall effectiveness as grade 2 (Good). Capacity to improve, Quality of Provision, Leadership and Management, Safeguarding and Equality and Diversity were also graded as 2 whilst Outcomes for Learners was graded as 3 (Satisfactory(Requires Improvement))

Quality Improvement

The college has been achieving relatively high retention and achievement rates over the past three years, which have been above the sector average.

Performance management processes are carried out between the Directors of Learning and Skills who are responsible for curriculum areas, and the Vice Principal responsible for Quality and Curriculum. The aim of these meetings is to help to improve the picture of success and to stop any downward trends. The meetings occur once a month and

consider the individual students who are at risk, staff observation results, good practice, student attendance and punctuality.

Financial performance reviews are not held simultaneously with retention, achievement and success (RAS) reviews. Budget variances are reviewed with Directors but there is no clear link as to what effect the actions recommended in RAS reviews will have on the budget. A much tighter link needs to be put in place to ensure that Directorates keep within their budgets.

At present there is not a system where regular summaries are presented to the Senior Management Team showing where the areas of concern are being raised.

Attendance

Attendance is currently below the college's target of 90%. There is a range across the college from 91% to 67%. Eighteen out of the 21 curriculum areas are below 85%. This has been a problem throughout the academic year. Attendance and punctuality will now become key elements of the RAS process.

Plans are being put in place to change from the present tutorial system which is run by lecturers to a system using dedicated tutors, which the college will call 'Progress Coaches'. This aims to bring consistency to the tutorial programme. At present feedback from students demonstrated a wide variety of practice throughout the college.

Curriculum Planning

Curriculum planning has been carried out by Directors of Learning and Skills who reflect on the current year's success and the local LEP needs for the future. They also take into consideration the demographics, funding cuts and government directives. Once courses are decided upon they use a curriculum planning model that includes the number of students and the funding that they attract. This model does not incorporate the staffing costs that will be incurred and therefore does not assist in showing whether a course is viable or not. The process of financial modelling as an integral part of the curriculum planning process is essential.

Teaching and Learning

The majority of teaching in the college is either good or outstanding. There is a team of 8 Quality Improvement Leads who support the process of improving quality. They have a 0.2 teaching load. Their main focus is on helping to achieve the actions that are highlighted within the quality improvement plan. Each Quality Lead is linked to a department but also holds a cross college function. This model is expensive and as the college has a sound basis in providing quality provision it is questionable as to whether this model is still the best one for the college. Rather than general support the college should focus on trying to improve some of the remaining underperforming areas, such as attendance, use of Information Learning Technology and alternative methods of delivery to reduce staff costs.

The Present Financial Position

Income and Expenditure

The college has generated operating deficits for a number of years. Throughout the whole of this period, the college has had the same Principal who has been in post for 10 years and a Deputy who has been in post for 8 Years. However, there have been a number of changes in the Senior Post Holder responsible for Finance with the latest change coming in October when a new Chief Operating Officer (COO) was recruited from the private sector. Since this latest appointment there has been progress in addressing the financial issues the college faces.

Over the past four years turnover has gradually declined, but proportional reductions in staff and non-staff costs have not been made. It is clear that control of staff costs is a serious, if not the major problem that has caused the operating deficits that have been experienced.

During the current year the downward trend on turnover has continued and whilst staff and non-staff costs have also reduced, staff costs are still approximately 9% above current sector benchmarks.

The college has recently experienced cash flow pressures, although the college is not heavily borrowed, with long-term loans representing 20% of turnover. Compared with other colleges in the sector this is not high.

The Estate and Capital Plans

The college is the lead with four other partners in a LEP Capital Bid to develop a National Skills Training Centre. The capital cost will be borne by the Leicester and Leicestershire Economic Partnership.

Whilst the college expects this project to generate a healthy margin, at the time of the intervention visit, the college did not have agreement from the other parties about how the costs of operating this new facility would be shared. Bearing in mind the college's weak financial position, it is difficult to understand how this project could have progressed so far without an agreed business plan being in place which describes the various parties' relevant obligations and liabilities.

Financial Management

The college's financial management position is complicated by the college's relationship with South Leicestershire College, with key business support functions, including Finance being shared by both colleges and the Midlands Academies Trust. The Federation structure means that key managers attended more than 50 formal meetings last year, including Boards and sub Committees. It is difficult to see how these managers can devote sufficient time to running each college given this governance model.

Financial Forecasting

Although financial record keeping has been good, the college has produced significantly inaccurate financial forecasts for a number of years. Financial reporting has also been weak.

The college has not in the past produced regular reports on the financial contributions made by each curriculum area either. These are common in most colleges and are regarded as a vital mechanism to assist in the control of financial performance. The new finance team are planning to introduce these reports shortly.

Budget Monitoring

It is obvious based upon the college's recent financial performance that budget monitoring has been below acceptable standards. This has not been helped by the finance department's reluctance to engage with budget holders. There has been no regular performance management of the curriculum's financial performance, although there does appear to have been a major improvement in this under the new Group Director of Finance & Risk. A review of the latest Management Accounts shows a significantly better situation, with actual figures much closer to budgets.

The Effectiveness of the Finance Team

The Finance Department personnel appear to be capable of undertaking their current duties effectively provided they have the appropriate leadership that has been lacking in the past. The new COO and Group Director of Finance & Risk should be able to provide this leadership.

The Recovery Plan

The college commissioned a full review of its finances and financial planning which was carried out by KPMG and included its federation partner South Leicestershire College. This review was completed in November 2014 and since then the college has been working with KPMG to develop a revised Recovery Plan, again a joint exercise with South Leicestershire College. This was reviewed during the intervention visit and was found to be well constructed, comprehensive and detailed.

Internal/External Audit

No serious concerns have been raised about the college's systems, procedures and controls but in view of the poor standard of forecasting, this is somewhat surprising.

The External Auditors stated in 2013/14 that they had an issue with the college on a "going concern" basis and pointed out that the college would need to access cash support during 2015. They had been assured that the college was in discussion with its bankers

about financial support and was contemplating the sale of land to provide working capital. They failed to note, however, that the college had been in breach of one of its banking covenants and this would be likely to cause difficulties with the bank.

Risk Management

The college has a Risk Register and a procedure under which identified managers own different risks. These are then subdivided by department to cascade down the involvement in risk management to lower levels. Risk is discussed on a regular basis by governors.

The new COO intends to work to embed risk evaluation more effectively into the operations of the college as Risk Management procedures have obviously not operated effectively in the past. This should be a matter of high priority.

Conclusions

The leadership and management team has made good progress in addressing quality issues both within North Warwickshire and Hinckley College and elsewhere in the federation. However, up until now they have failed to address the significant financial issues that both colleges face, and in particular to bring staff costs in line with sector averages. The Board has also failed to take action to reduce costs and ensure that recurring deficits are eliminated.

Recent changes to the senior team in the form of appointing a well-qualified chief operating officer from outside the sector should help in addressing these issues but in the meantime closer scrutiny will be necessary and changes to both the membership and functioning of the Board if the college is to resolve its present difficulties.

Recommendations from Further Education Commissioner

- 1. South Leicestershire College and North Warwickshire and Hinckley College should develop its federation model into a full merger, with one board, one senior management team (already in existence) and fully integrated systems and procedures.**
- 2. The composition of the new Board should take account of the skills of members from both colleges and ensure that it has adequate curriculum, business and financial expertise to challenge and support the senior management team**
- 3. A KPI data dashboard should be available to Board members which clearly shows current figures against targets and the previous year's performance**
- 4. Both colleges should revisit their financial forecasts for 2015/16 and 2016/17 as a matter of urgency to reduce staff costs significantly and thereby make improvements to their forecast Operating Surplus/Deficit positions.**
- 5. Curriculum Plans should include costs associated with each programme and its contribution to overheads**
- 6. The Chief Operating Officer and Group Director of Finance & Risk, both of whom have a private sector background, should network with peer groups in the FE Sector to develop their knowledge of current best practice**
- 7. Curriculum delivery models should be reviewed to reduce direct delivery hours, and make more use of on line learning and self-directed study**
- 8. The college should seek to clarify the financial arrangements with other project participants in the MIRA development as a matter of urgency.**

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